

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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Republican Debt Is Growing Faster Than Our Economy — Debt Will Rise As A Percentage Of The GDP

Dear Democratic Colleague:

Budget math can be complicated, but there is one bright line between minimal fiscal responsibility and clear fiscal irresponsibility: A nation's accumulated debt should not grow faster than its economy. In other words, the national debt should not rise as a percentage of the GDP. For a nation, just as for a household, a debt growing faster than income is a recipe for disaster. Rising interest cost adds to annual deficits, which add to debt, which adds to interest, in a vicious upward spiral.

Our nation's fiscal reversal over the last two years has been so large and so fast as to be mind-numbing. A \$5.6 trillion projected ten-year budget surplus has deteriorated to a \$4.0 trillion projected deficit — a swing of almost \$10 trillion over just those two years. This year's budget result, which the Administration projected two years ago as a record \$246 billion surplus, will instead be a deficit of more than \$400 billion — the largest in history by a margin of more than \$100 billion. As all of that bad news translates into debt that is loaded onto our children and grandchildren, the damage is plain for most of us to see.

But still, Republicans claim that no harm is being done, on the ground that the deficits and debt are modest in relation to the size of our economy. This argument is complex enough to strike some as persuasive. However, it is not true.

The first fundamental flaw in the Republican argument is that it is based on outdated estimates of the deficit and debt. The budget outlook has deteriorated substantially since the last official projections by the Congressional Budget Office (CBO) and the Administration. CBO has acknowledged that this year's deficit will be at least \$100 billion larger than it estimated in its last formal projection just this March; the Administration has not updated its view since February. The adverse changes in the budget outlook in the near term — which

result from a decline of the revenues of the strong economy of the 1990s back toward their historical trend — should be recognized as worsening the longer-run budget picture as well.

Furthermore, the Republican view of the deficit is incomplete; it does not include their own proposed policies, which would worsen the deficit further. For example, the Republican budget resolution did not include all of the tax cuts proposed by the President, or the reduction in capital gains taxes that Republicans already have enacted.

When the budget projections are updated for the recent deterioration in tax collections, and for the remaining Republican agenda, we face budget deficits of over \$400 billion this year and almost \$500 billion in 2004. Furthermore, the budget improves very little over the next ten years, with deficits remaining above \$300 billion until again worsening to almost \$500 billion by 2013. These deficits are by far the largest in American history, and are close to the highest as a percentage of the GDP.

Most troubling, however, is that the projected deficits remain so large that they drive up the accumulated public debt faster than the economy. The debt reached a low point as a result of the last budget surplus in 2001 (any surplus reduces debt — even though the surplus was falling sharply and, at \$127 billion, was far below the Administration's projection of \$281 billion) at 33 percent of GDP. By the latest House Budget Committee Democratic staff projections, the public debt will rise to 44 percent of the GDP by the end of 2013.

The outlook for the next decade parallels the experience of the Reagan-Bush years. From 1981 through 1992, the federal government ran consistently large budget deficits, ranging from 6.0 percent of GDP (1983) to 2.6 percent of GDP (1981) and 2.8 percent of GDP (1989). Even the smallest deficits in that period provided virtually no improvement in the ratio of debt to the GDP, and even those in the middle of that era's range drove the debt substantially upward. (Over that period, the debt quadrupled in dollar terms, and doubled as a percentage of the GDP.) The same result holds under the HBC Democratic staff estimates today. Republican arguments that the coming deficits are benign because they are not the very largest in history ignore the crucial fact that they are more than large enough to grow the debt faster than the economy — the classic recipe for fiscal disaster.

As troubling as this outlook is, it could be unrealistically optimistic. As always, the budget baselines assume consistent economic growth for ten years. The economic assumptions continue to reflect the acceleration of productivity growth in the late 1990s, which may or may not continue, and they assume that interest rates will remain relatively low. Any shortfall of economic performance over the next ten years will yield an even faster compounding of deficits, debt and debt tax, and an even greater budget burden on coming generations.

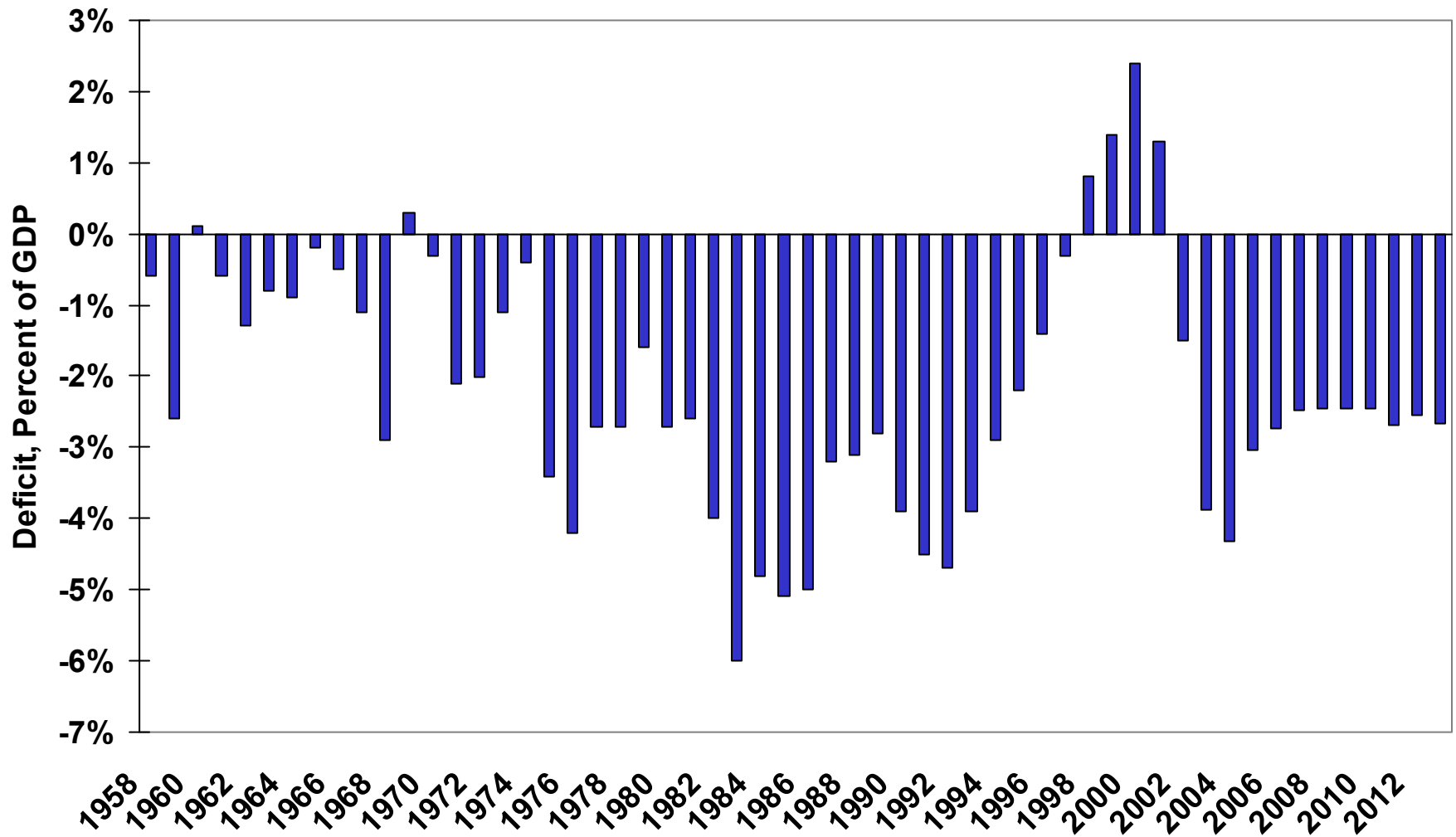
Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

Republican Deficits Fall Back Into the Danger Zone



Republican Deficits Increase Debt As A Percentage Of the Economy

